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LETTER 694

April 1, DJIA 927.36; PTI 815; A-D Ratio −20.35
April 7, DJIA 918.88; PTI 803; A-D Ratio −20.82

WHY, WHY, WHY? The US consumption of energy is rising at an approximate 3-4% rate per year. Energy advisor Schlesinger stated last week that at the current rate, we will be using double the amount of energy within 17 years. Now the cold fact is that neither Saudi Arabia nor anyone else can possibly deliver on that kind of scale. The other fact is that we are going to have to reverse our energy pattern. We are going to have to move to a zero or even a net contraction of energy consumption.

INTERNATIONAL GASOLINE PRICES A world-wide sampling of the price of a U.S.-size gallon of gasoline (March 1977) shows a tremendous range:

Finland	$1.75
Spain	$1.60
Tokyo	$1.55
Hong Kong	$1.52
Rio de Janeiro	$1.47
West Germany	$1.43
Great Britain	$1.15
U.S.A.	$ .63
Venezuela	$ .14

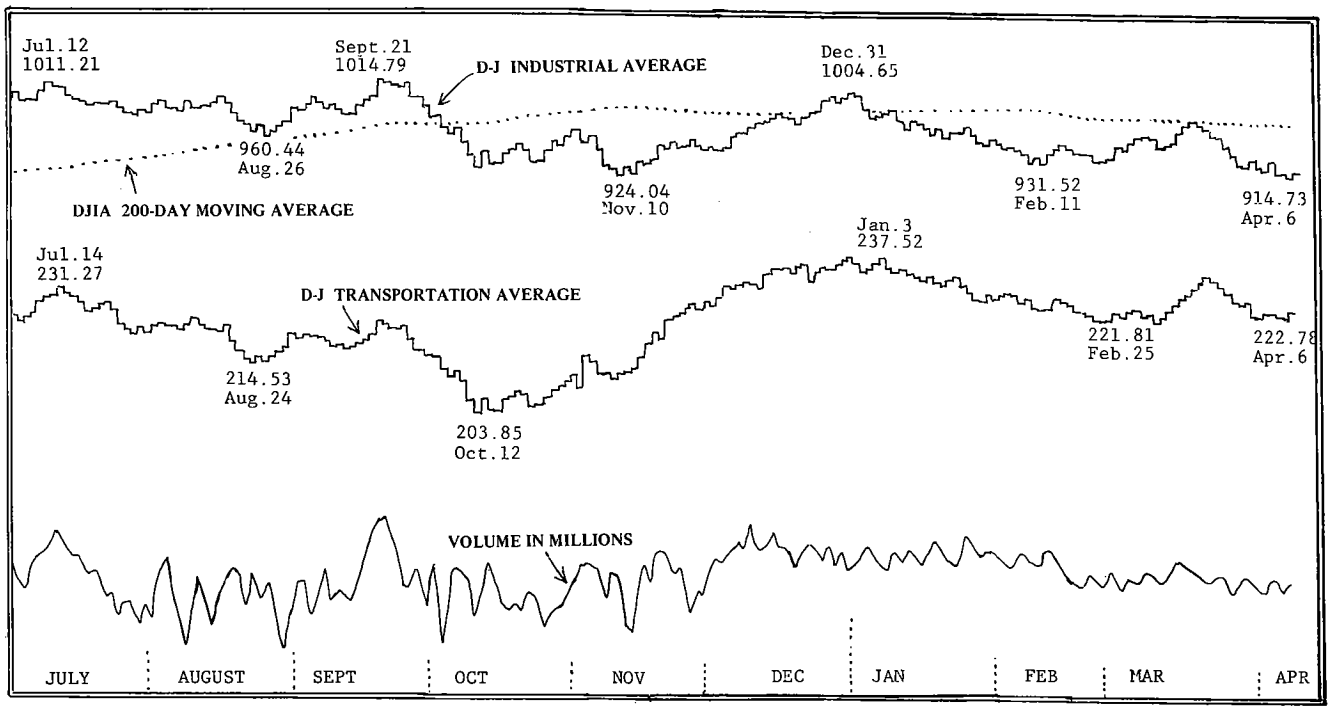
I foresee a number of immediate phenomena emerging from the energy situation. (1) Gasoline prices are going to move towards the world market price. I include this list of international gasoline costs. "Under $1 per gallon" gas in this nation should be a memory within a few years. (2) About 1 out of every 7 workers in this nation has an auto-connected job. I see a big (and probably painful) upheaval in this area. (3) *Public* transportation is less energy-consuming and cheaper than private transportation. I see public transportation coming in much bigger than it is now. It seems to me that the market also understands this, and that could be why the D-J Transportation Average is still about 9% above its October low while Industrials have broken their comparable November low.

The corollary to all this is that although energy costs are going up (which is inflationary), consumption of energy is going to ease off and business and consumers are going to be confused, concerned, perhaps frightened. The inference here is *deflationary*. The bond market, which is ultra-sensitive to inflation, has been very firm over the past month or so, and this in the face of a veritable consensus to the effect that "inflation is going to go wild, and interest rates are heading higher." If the consensus is correct, the bond market sure doesn't believe it.

THE PICTURE: In this business, it is necessary to have a broad over-view, a stance or position regarding the stock market. If you don't, then you are just a piece of pseudo-investment fluff being batted back and forth by every breeze and zephyr. The breezes and zephyrs of Wall Street are many, including the rumors, the squalls of fear and greed, the little one-day or one-week rallies and declines within the market itself.

I have known many men in this business who, because of prejudices or preconceived notions, arbitrarily "decide" that it's got to be a bull market or it must be a bear market. Once deciding, they then go about gathering every scrap of "evidence" in a vain effort to prove and re-prove their thesis. Such efforts more often than not end in disaster. I have seen many an investment advisory "go down the tubes" in the face of a market that moves relentlessly and seemingly endlessly against them.

During the thirty years that I have been studying the market, I guess I've looked into or tried every major system or theory (and most of the minor ones as well). A lot of them proved OK, many of them contained a good deal of merit, but with few exceptions I have discarded them all. I have discarded them in favor of the one system that has withstood the test of time. That system is the Dow Theory.



I'll go even further and say that in the nineteen years that I've been writing Dow Theory Letters I have seen most of the proponents of other systems leave the scene. It's true that some of them just got bored or tired, others died, still others did all right but sold out, and so forth. I stuck with Dow's Theory, and *Dow Theory Letters* is now the oldest "private" service, continuously written by a single individual in existence (when I say private service, I am distinguishing it from say *Standard & Poor's* or *Moody's*).

Actually, I don't take much credit for this service's longevity except to say that I am persistent, I do love the stock market, and I am doing what I like best. Maybe the fact that I'm doing what I like rubs off (to good effect) on some readers, and maybe it doesn't. But loving what I do makes a big difference to me.

At any rate, I am leading up to something and it is this. A basic tenet of the Dow Theory is that the trend is taken to **remain in force** until proved otherwise. This principle carries most weight when we are dealing with the primary trend, less weight when dealing with the secondary trend, and least weight when we are talking about the minor trend (the minor trend, for instance, can change in a day).

In Dow Theory terms, this primary bull market began in October, 1974. According to Dow's Theory, a movement terminates at the point where the *two* Averages, Industrials and Transports, register their last *joint* highs or lows. During the recent bear market the Transports recorded their low at 125.93 on October 3, 1974, and they never went lower (despite a final December low of 577.60 by Industrials). From the standpoint of history, Dow's Theory will therefore record the end of the bear market and the birth of the new bull market as October 3, 1974.

On January 27, 1975, following a correction, both Averages bettered their preceding November, 1974 peaks. That action officially signalled a primary bull market under Dow Theory. ***Since then nothing has occurred to suggest that the primary trend is other than bullish.***

Let me emphasize again that the bull signal of January 27, 1975 has never been reversed. We've had difficult times, we've had vicious market shakeouts, dullness, divergences, bad news, droughts and floods, deficits and inflation, the worst recession since the 1930's and an ongoing energy crisis–but ***nothing*** has occurred to cause Dow Theorists to say that the primary trend of the market is other than bullish.

Now that may not sound like much, but it represents an *investment position*. It represents my stance. It means that from the Dow Theory standpoint the primary trend is still bullish. Therefore, it causes me to follow a definite line of acting and thinking. What I do is watch all the signs and fundamental and technical indications to see whether they appear to be backing the bull case–or whether they are failing to back the bull case.

I've written many times that the stock market is your "enemy," it's a veritable monster. The market will try to go up as far as it can without you, and it will try to lure you in at the absolute top (it does that by "looking very good" at the top). The market will try to keep you in on the way down, and the bigger the decline the harder the market will try to make you hang on to your stocks (it does that by looking "hopeful" all the way down, except at the absolute bottom where the market always looks just awful).

It has been said that of all things man produces by his own hand, the **most frustrating** is the stock market. That's a statement I firmly believe. And I've often said that whatever our personal major defect is, whether it's greed, envy, fear, resentment, pessimism, spite, you name it, the market will try to defeat us through that weakness. Most of the men who are successful in the market therefore have to learn to conquer their weaknesses. They conquer them or they end up broke. It's as simple and as cold as that.

I've been talking about the Transports and the Dow Theory confirmation principle in Letter after Letter. In the last mailing I included a section on the very difficult, very scary 1932-37 bull market, a bull market that saw one Average (Transports) break down completely while the other Average (Industrials) held by a hair this side of providing a bear signal.

I compared that period with the present period in which the Transports have (so far) been unwilling to confirm the weakness of the Industrials. On March 31 the D-J Industrial Average broke below its November 10 low of 924.04, thus providing "one half" of a bear signal. But as every Dow Theorist knows, and I have stressed over and over again, half a bear signal is no better than none. Thus it would require a Transports breaking of its October low of 203.85 to complete the bear scenerio–to turn the primary trend down.

At this point I want to introduce a thought that has been on my mind for a month or so, and it goes like this. Last week *Xerox* announced price cuts of up to 27% on its copiers. Last week *Burroughs* also announced price cuts. Many corporations are now cutting back (or holding back) on expansion plans. The new mood is, "If you have to expand, buy a company, it's cheaper than creating a new one." At the same time Wall Street is trying to measure the momentous effects of the energy squeeze. For while the price of energy is bound to go up, the results are going to be less uses of energy, less driving, less boating, less everything connected with energy. All and all, it's a ***deflationary*** scenerio for the economy and the stock market.

The Dow Industrial Average is now selling at around actual book value (which I take to be around 900 or a bit more). It is a fairly rare occurrence when the Dow sells at its book value, and such instances appeared in 1932, 1942, 1949 and 1974. In the past, when the Dow got down to the point where it was priced near book value, it ran into what I term "fundamental downside resistance." In other words, the fundamentals of value tended to put the brakes on any decline.

As I see it, the fundamental floor on the Dow should be operative around now, give or take 50 Dow points or so. The fact is that by past standards the Dow stocks are priced reasonably at a current price/earnings ratio of about 9.6.

By the same token, we have a problem on the upside, and I believe that problem is that investors do not see the prospect of any real and sustained growth over the period ahead. They see the maze of taxes, regulations, and assorted business restrictions and uncertainties as a dark cloud hanging over Wall Street and the economy. And they see inflation easing, maybe fizzling out altogether. That sentiment tends to place a ceiling on the Dow and the ceiling is clearly Dow 1000.

So much for the current upside limits for the bull market. How about a bear market? At this point, it would be necessary for the Transportation Average to break 203.85 in order to signal a Dow Theory bear market. Obviously, that could happen, but so far the Transports have given **no indication** that they want to plunge 9% and thereby smash the 203.85 level. A veteran subscriber called last week to tell me that the "coal carrying rails stocks in the Transportation Average" are giving that Average a deceptive strength. Maybe so, but I do not like making excuses one way or the other for the action of an Average. The fact is that so far, ***Transports have said that it's still a bull market.***

All right, where does this leave us? For over 14 months analysts, market observers and technicians have been debating about whether the Dow is going to 1150 or back down to the 500's or 600's. And I wonder to myself, *"Maybe everyone is wrong."* Maybe with no growth, with deflationary forces appearing and with dramatic new limits to energy use, with all of that maybe we're going to have the one phenomenon that Wall Street hates most–a continued trading range.

It could well be that the trading zone that began in early 1976 is fated to extend, extend to a Dow zone of say 850 to 1000. This could be like the trading zone of Dow 100 to 150 which appeared during 1938 to 1943 or the Dow zone of 160-200 which appeared during 1946 to 1950. It would be, in effect, a Dow with a value floor at 850-900 and a no-growth ceiling at 950-1000.

But nothing lasts forever, even on Wall Street. So I ask myself, "What could take us out of the trading zone?" In my opinion, Jimmy Carter could. As I see it, President Carter is a highly intelligent man, and he's a tough man. He's a searcher, and he doesn't owe anybody anything. So far, Carter's trying to handle the economic problems in "the old way." But I don't think the old ways are going to work. When Carter sees that the old ways aren't working, I think he's going to turn to constructive policies for American business. And when that happens, we're going to have a rejuvenated bull market.

Already, the nation is beginning to see what Carter is all about, and the *Wall Street Journal* picked it up on April 7 (front page). *"President is Proving a Fiscal Conservative,"* stated the headline. Carter, so far, has not given the unions what they wanted, he has not given the liberal spenders what they wanted, he has frustrated the Congressional pork-barrelers with his water-projects attitude, he has not given the farmers the "supports" they wanted, and Carter has not liften more than a finger or two for the $50 tax rebate nonsense.

My own view is that President Carter is going to be more conservative, smarter, tougher and more intelligent than any Democratic or Republican President in recent memory. I also think that he's going to be able to get the job done. For one thing, Carter has the people behind him, and the people are fed up. When the American people get fed up, and when they get a President who has brains, one who is able to learn and who means business, then watch out. That could be just about where we're headed, and each passing week makes me more convinced of it.

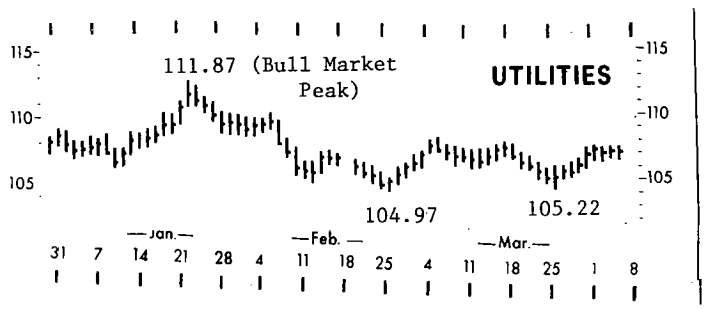
PROBLEMS PROBLEMS: In Letter 688 I listed three "insurance" spots, which if touched off, would serve to warn us that things are amiss. I want to go over those three items again in the light of what has occurred since 688 (which was written February 4).

The first insurance item was the 924.04 Industrials and 203.85 Transport levels. If those lows were jointly violated, such action was to be my number one danger signal. So far, the Industrial level has been violated but the Transport level has not. So far, so good.

The next insurance area was the 13-week and 50-week Moving Averages of the Dow. I stated in Letter 688: *"It is my policy to give the market every benefit of the doubt. On January 7 the spread was 20 points between the moving averages with the 13-week MA still in the bearish position below the 50-week MA. As of this week, the bearish spread had contracted to 16 points. However, if the spread expands to a new high of 21 points or more, I'm not going to like it, and I'm going to recommend that we take out insurance."* Last week the spread did increase to 21 points, and on a cold reading of this study, real caution is now called for.

The action of the Advance-Decline Ratio was the third insurance area which I referred to in Letter 688. I stated that if the A-D ratio broke more than 1 point below its January 3 peak *"I would say that subscribers should be very careful, probably scale back on some stock holdings, start to move into a defensive position."* On February 11 the A-D closed 7 hundredths below the 1-point zone, then rallied back within the 1 point zone. On February 25 the A-D broke down more decisively and this caused me to send out the special "Supplement" to Letter 690 warning that the A-D Ratio had delivered the second insurance signal.

Frankly, three factors have kept me from issuing a "Sell all stock positions down to the bone" type of message. The first factor is that it's still a primary bull market. The second is (and has been all along) the superb action of the Transportation Average. Over and over again the Transports have held when it appeared that "all might be lost." In the last mailing I pointed to the *most recent* significant Transport low, the February 25 low of 221.81. I wrote that if that low was broken, *"It would be time to sell more stocks in order to protect ourselves."* But so far, the 221.81 low has held. It has been approached closely, but it **has held.**



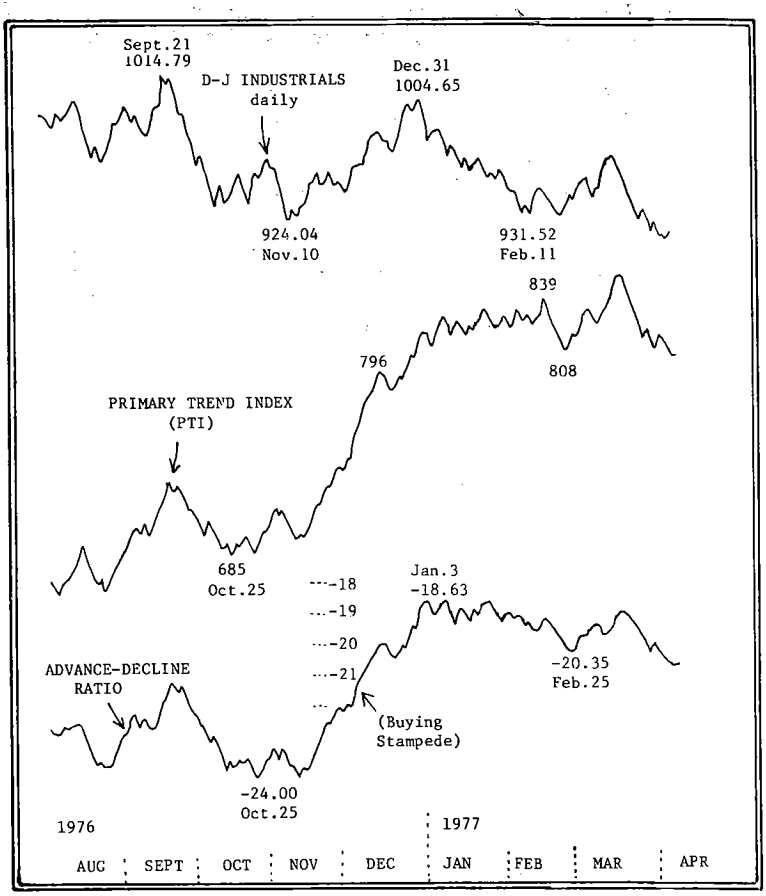
The third constructive factor is the action of the D-J Utility Average. In the decline from its 111.87 bull market peak (Jan. 25, 1977), to its recent low of 104.97 (Feb. 25), the Utility Average lost only 6.1% of its value. This is powerful action on the part of this **bellwether** indicator, particularly since the Utilities had to contend with the bond slump of January, 1977. But more important, Utilities rallied from their Feb. 25 low of 104.97, backed off to a March 25 low of 105.22, and have since pushed higher. In other words, Utilities have been working gradually higher ever since late-February. I would consider any Utility close **above 108** as highly constructive for the whole market.

So the confusing picture is that two out of the three "insurance" areas have issued warning signals, while the Transports and Utilities are saying that things are better than they appear. At any rate, I want subscribers to be in a fairly defensive position, a position which accents value, value and more value.

I have avoided recommending glamor stocks or low-yielding stocks ever since this bull market began. At this point I would go through your list and where a stock sells above a P/E ratio of 10 or where a stock yields less than 6%, I would either cut back or eliminate it from your holdings. I believe that my deflation, no-growth thesis is going to become more widely recognized over the period ahead, and that the word is going to be ***value now, income now, earnings now.***

Remember, up to 1958 stocks consistently yielded more than bonds. Since 1958 we have had a reverse spread, based on equity growth and inflation. With equity growth and inflation now in question, bonds are becoming very competitive with stocks again. Bonds give you the yield now, with no waiting. Any stock you hold had better do the same thing (at least to a large extent!).

BREADTH: My two most important market breadth indices continue to be fairly resistant to the decline. The *Primary Trend*



Index (PTI) has dropped below its February 25 low of 808 but it is still 115 points above its October 25 low. This represents a non-confirmation on the part of the PTI, since the Dow is below its comparable November low (see chart).

The *Advance-Decline Ratio* is, rather incredibly, less than 2½ points below its January 3 bull market peak, while it is more than 3 points above its October 25 low. Thus, with all the dismal action of first quarter, 1977, the A-D Ratio has retained better than half its October -January "buying stampede" gains. The A-D ratio, by the way, acts very much like an unweighted stock average.

In the face of this unusual "holding action" on the part of these breadth indices, a new factor entered the market last week. The new factor has to do with a rare selling phenomenon on the NYSE.

URGENT SELLING: To my mind, perhaps the single most interesting phenomenon in this market (apart from the Transports unwillingness to confirm on the downside) is the syndrome which is termed "urgent selling." I introduced the urgent selling concept in Letter 680 (with many thanks to its discoverer, Jim Alphier of *Clayton Chicago Options*). The urgent selling concept is based on the action of any representative average over a period of at least **15 consecutive trading days.**

More specifically, urgent selling is based on the relationship between advancing and declining days. We have been using the broadly representative S&P 500 Composite Average. Over a period of 15 trading days or more, whenever the S&P 500 declines on a 4 to 1 ratio (i.e., when it declines 4 days for every day of advance) we call that urgent selling. Such a preponderance of down-days over up-days implies extreme emotionalism, outstanding bearishness, a willingness to "throw them over" day after day after day.

But what is very important is that urgent selling is a *rare* phenomenon. Using the Dow Averages from 1885 to 1925 and the S&P 500 to the present it is notable that urgent selling has occurred only 58 times. More important, urgent selling has occurred only 7 times *during bull markets* (going back to 1885) or about once a decade.

When I last wrote about urgent selling (Letter 680), we had just ended the 7th instance of urgent selling within a bull market in history. That was the period of Sept. 21, 1976 to Oct. 14, 1976 (at that time the S&P 500 declined on 14 out of 17 trading days).

Few people realize it, but we have **just had another period of urgent selling!** It began on March 17, 1977. Since then, the S&P 500 has declined on 13 out of 15 trading days or *better than* 4 days down for every 1 up. This qualifies the recent action as history's eighth instance of urgent selling within a primary bull market.

It is important to realize that all periods of urgent selling *within bull markets* have been followed by market advances. Here is the actual record. Following a February, 1904 period of urgent selling, the Dow rose 105% within two years. June, 1918 urgent selling, the Dow rose 50% in a year. November, 1918, Dow rose 50% in a year (both the 1918 urgent selling instances together were followed by a 50% rise). May 1951, the Dow rose 14% in four months. June, 1965, the S&P 500 rose 14% in seven months. August, 1975, the 500 rose 25% in a year. October, 1976 the 500 rose 6% in two months. The 1976 instance was a poor performance, but it is interesting to note that following 1976's urgent selling, the Value Line unweighted average rose almost 13%.

Of the four modern (since 1951) instances of urgent selling within a primary bull market, the *average* rise in the S&P 500 has been 15%, with the biggest rise being 25% and the smallest being 6%. Whether history is fated to repeat, no one can tell. But to me it is important to realize that we have just had our eighth instance of urgent selling within a bull market. The history of the urgent selling phenomenon indicates, therefore, that the next important market move should be up.

I will now add a condition of my own. I believe the odds for a post-urgent selling rally will be considerably enhanced if the Transports can hold above their low of 221.81 of February 25.

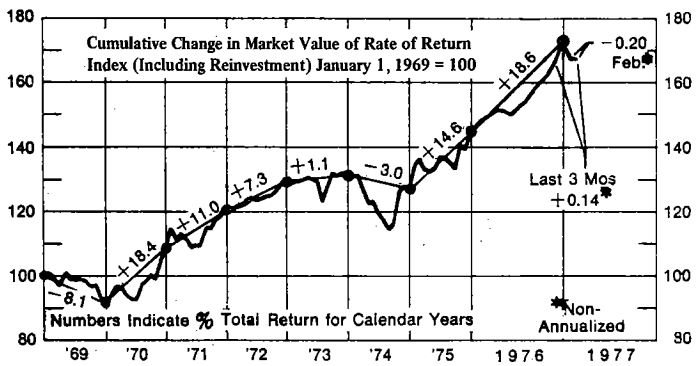
A final observation about urgent selling. We have had three instances of urgent selling since August, 1975, or three urgent selling periods within the last 20 months. This suggests that this market is, and has been, fearful and prone to panic on the downside. That's hardly the kind of atmosphere that breeds true, bull market tops. In fact, no bull market in past history has ever topped out with three urgent selling squalls at or near the highs.

BONDS: During a "dead" period such as the one we have lived through since early 1976, the ideal investment can often be a money vehicle such as T-bills, a liquid asset fund, or short-term notes. All of which brings me to the subject of the "new" growth concept of the mid-1970's, compound interest and the "total return." Of course, there's nothing new about the idea of total return, which means simply adding the dividends and interest when figuring the yearly appreciation (hopefully, not depreciation) of an investment. Of course, the total return concept is always most interesting when interest rates are *high* (as now), and it is least interesting when interest rates are miniscule.

I've used this example before, but I want to present it again. Suppose I said to you, "I've got a great growth stock. This

stock yields only 3%, but wait, it grows at a guaranteed rate of 6% per year." You'd probably say, "I'll buy it." And I would then point to a bond and say, "Here it is, a good bond yielding 3% plus 6% or a total of 9% annually."

Over the past two years I've asked subscribers to place at least 50% of their assets into good bonds in a variety of forms, Municipal bond funds, closed-end bond funds, Muni unit trusts, open-end bond funds. I did this on the basis of four premises: (1) Bond yields have been (and are) very attractive on an historical basis, (2) Reinvesting bond interest (compounding) produces very good results, particularly at today's high rates of return, (3) I thought that interest rates would hold or even decline, and I based this in part on my thesis that we are in a long-term bull market in bonds. (4) I picked bond funds over individual bonds because this eliminates the problem of liquidity, and it eliminates the problem of an investor's picking a poor bond (in other words, the fund offers diversification). The single exception to the bond funds which I have recommended is the Government bond, which offers great liquidity and safety.



At this point I continue to recommend the purchase of bond funds for individual investors, corporations and pension plans as a vehicle for growth. Salomon Bros. recently published this chart of *cumulative* return on High-Grade Corporate Bonds (cumulative equals price appreciation or depreciation plus yield). As you can see, the "portfolio" is up about 90% from late-1969. And from the 1974 low, the bond portfolio is up about 58%. That's rather impressive, considering the fact that you are dealing with High Grade debt vehicles.

A suggestion: for those who complain that compounding can't be rewarding because of high taxes; buy a tax-exempt bond fund such as *Federated Tax-Free Income Fund* (call toll free 800-245-2423 for information). For those who don't have to worry about the tax bite (i.e., pension funds or lower-income individuals), try a listed closed-end bond fund such as *Montgomery Street*, yielding over 8% and listed on the NYSE' For those who want top safety plus a long-term call on today's high interest rates buy a long-maturity Government bond such as 8¼'s of 2000 or the 8 3/8's of 1995.

GOLD AND BONDS: I have been asked many times how I could be bullish or even hopeful about both gold and bonds. "Isn't a play for higher gold and depreciating dollars a play against bonds?" I am asked. Now it is true that I have not been very excited about gold this year, and I somehow *still* can't get too excited about it.

Last week Tony Gaubis (*Business & Investment Timing*, PO Box 788, Sparta, NJ 07871), as astute a veteran market observer as we have around, wrote in his report, *"In the event that we are to see a worldwide rise in the monetary price of gold within the next 6 to 12 months, interest rates could be expected to decline, rather than rise. Since the increase in the monetary price of gold is likely to be of sufficient magnitude to bring hoarded gold back into the monetary system. The Carter Administration may have such a move in mind, as it would help reach the widely publicized goal of a balanced budget within the next three or four years. The Government debt could be reduced by the amount of profits on this country's gold reserves, with lower interest rates stimulating business activity (and thereby Federal Tax revenues), and, also, permitting lower interest rates on bonds issued in refunding of outstanding issues."*

It could happen: I don't know if it will or not, but it could. If so, then gold would not only go up but bonds would go up proportionately to the interest rate decline. Personally, I would rather hold the bonds here than the gold. I am getting paid to hold bonds, but I get nothing for holding bullion. I would be more than happy with say a 20% rise in bonds instead of a doubling in the price of gold. And if it doesn't happen, I feel happier collecting those coupons.

Incidentally, the September Treasury bill futures just surged on my chart–towards lower yields. The move is saying that investors who put their money where their mouth is are sharply curtailing their expectations for higher interest rates for late-1977. Thus, while "everyone" is *talking* higher short-term interest rates for later in 1977, the money is saying, "It's a lie." I always believe the money. It's the money that makes my chart, not the talk.

WHAT WE NEED: If you believe that the world is a schemeless, haphazard globe, hurtling mindlessly through space, then you might as well skip this section. If you believe, as I do, that a supreme intelligence "pilots" our lives and the universe, then you might get something out of the following.

I was feeling nervous and jumpy (let's face it, I was worried) the other night. After a few tense hours, I finally decided to try to "get it together" and understand why I felt that way and what I was doing to produce those worried feelings. It was then that I realized that I had been reading the latest issue of *Forbes*, and I was upset by all that high-powered corporate in-fighting and internecine struggle. I guess I saw some of it in my own life, my own struggles to understand the market, my battles with my psyche, my occasional arguments with friends, relations and even acquaintances.

What are we all doing, I wondered, why do we keep on pushing? Why do corporations continue to attempt to get bigger, why do vice-presidents kill themselves to become presidents, why do I worry about whether I should be doing better for my subscribers or whether I'm paying too much for printing or paper or a hundred other things.

It was then that I remembered something I had read a few years ago: *"All worry actually boils down to a lack of faith in God's master plan.* That plan is that we move forward, move towards perfection, move towards our own full potential. And in order to do that, it is necessary for each of us to **get what we need.** Therefore, each of us is given the ammunition, the supplies, the necessities which all boil down to "what we **need.**"

In other words, if we need some profits in the stock market to sustain us, if we need some kind of luck to sustain us, if we need a promotion in our job to teach us or sustain us, then we will receive it. I've known men who have made fortunes in the stock market, and I can see how that money is vital to their path of advancement. I know other men (usually either lazy, arrogant or both) who take so many losses in the market that I wonder why they never "put it together" and either wise up or quit. In both cases, the two groups are **getting what they need** to move them forward. Profits in the stock market and losses in the stock market can both be "teaching aids." I'm convinced of it.

Unfortunately, most people consistently confuse what they need with *what they want*. They spend their lives and their best

efforts in fruitless pursuit of what they want or what they "have to have." This is a sad and frustrating game. What we want is seldom of any use in the great scheme of things (unless that "want" is of a selfless nature or of use to someone else or to humanity). In fact, I've come to the conclusion that a lot of what we call ambition, all ego trips and most of our dashing about after money, is simply a method of producing tension and worry.

"Now, why in the world would anyone want to produce tension and worry?" you ask. And the answer is that running after worries constitutes the perfect way of getting our minds off our real problems, and onto some other "safe"but ridiculous problems, problems such as "How can I turn my million into two million," or "How can I get rid of my Chevy and get a Rolls like Freddie down the block."

So, what I try to do is experience the fact that I always get what I need. Looking back over my life there have been no exceptions to that rule. Once I experience that, once I get that through my head, I find that I can relax and flow with life, with the universal unconscious. The market becomes clearer, my own life takes on meaning, I start breathing deeply again. At any rate, it's worth thinking about next time you have that cigarette in your hand, and you feel that pressure in your chest or gut, and your mind is fixated on what "you've got to have." It's worth thinking about, and I think about it often.

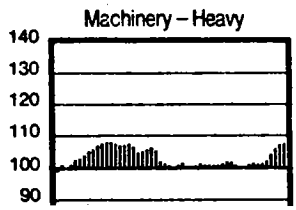
LATE NOTES: With the Dow down almost 10% at its 914.73 low of April 6, we have had (so far) *only two weeks* in 1977 with more new lows than highs on the NYSE (on a running, 52-week basis). On the week ending April 1, there were a mere 45 more new lows than highs. On the week ending April 7, there were only 34 more new lows than highs. That's an extraordinary performance from the standpoint of *downside resistance.*

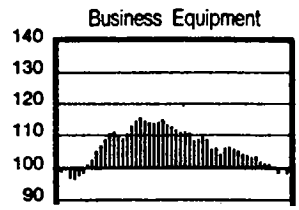
Just as "exotic" are the weekly tabulations by *Chartcraft* of Larchmont, NY. Chartcraft runs weekly counts of all the NYSE **stocks** and stock **groups** in bullish or bearish trends. As of April 7, 64.2% of all NYSE stocks were still in bullish trends (this figure has not dropped under the critical 50% level during the entire decline). By the same token, 66% of all the groups are still in bullish trends. Again, this is extraordinary downside resistance.

Currently, the market is rallying off its April 6 lows, with Transports pulling further and further away from their nearby low (see page 1 chart) of **221.81**, and very significantly out of range of their October low of **203.85**. If Transports continue their tremendous performance of the past 6 months, we may have a frustrating market, we may have a profitless market, we may have a whipsawing market, but we are **not** going to have a primary bear market. And if we're not going to have a primary bear market, then in due time, when the great unconscious of Wall Street is good and ready, we're going to have a continuation of this bull market. And that means higher stock prices (and my bet is dramatically higher–in due time).

To sum up in this "Late Notes" section: (1) what the market **doesn't do** is often as significant as what it does do. (2) This market is not showing me any impressive weakness after a 7 month slide in the Dow. Frankly, I've never seen anything quite like it. If the market won't go down impressively, it's often getting ready to go up impressively. We could be getting near that point. (3) There's nothing a bull market likes so much as to bring in bears, get their hopes up, "pat them on the head and soothe them," and then turn around and destroy them. I can't be sure, obviously, and I don't like to go off the deep end, but it wouldn't surprise me if there's a bit of bear-destruction slated for the period ahead.

M/G FINANCIAL runs little charts showing weekly relative strength (RS) of 64 stock groups against their broad composite. Each chart shows the RS of the group against the composite (weekly basis) over the past 52 weeks. Scanning the charts this week, I noted that *Business Equipment* appears to be heading for trouble, with its relative performance weakening for many months until now it is about ready to under-perform the market. On the other hand, *Heavy Machinery* appears to me to be off on a second big upward push in relative strength. The market could be saying that the generally low-yielding Bus. Equip. stocks are fully priced and probably running into stiff competition. And the Heavy Machinery stocks could be acting well, preparatory to that long-awaited expansion in capital spending. It's hard to have "good times" without a capital goods boom, and if a capital goods boom is coming, Wall Street will know it before anyone else. Wall Street is saying it could happen.





SAN DIEGO: I have frequently mentioned SD in these Letters–to the point where (to my amazement) the SD Chamber of Commerce, some years ago, sent me a letter of commendation. San Diego's population has been rising to the level where I hardly want to talk about its charms any more. Although SD is relatively unknown on the East Coast ("Where is it, somewhere north of LA?"), it is very well known to West Coast denizens. As a matter of fact, *Coast Magazine* just referred to this town as "The Last U.S. Paradise." Now I don't want to label SD a substitute for heaven, but let me put it this way: everytime I travel anywhere else, after about two or three days I start cursing the fact that I left San Diego.

So, I want to mention SD once more to my subscribers, knowing full well that if all of them suddenly decided to pack up and move here, it wouldn't exactly sink the town. SD now has a population about comparable to San Francisco's. This town is becoming a good deal more sophisticated, it even has its own bagel factory. "Bubbling Brown Sugar" has played here, new Franch restaurants are opening, as are disco's, and Ray Kroc (of McDonald's fame) has decided to move to La Jolla (La Jolla is a suburb of San Diego). Kroc has enough currency to be able to move about anywhere, so that should tell us something. For those of my readers who think we are on the edge of "the new dark age,"I would say take a look at SD. It's a great place to weather the ice age. It's America's last bargain paradise, but please–don't tell your friends; just slip quietly out here on your own!

BERMUDA: *The National Committee for Monetary Reform* is giving a conference in Bermuda, June 16 through 19. It will be held at the Bermudiana Hotel, in the town of Hamilton, Bermuda There will be many speakers of note, including Harry Schultz, Ira Cogleigh, Col. Harwood, Dr. Henry Hazlitt, Alden Wells, Jim Sinclair, Julian Snyder, Mike West, and then there's me. I may be the maverick of the group, since I am not convinced that gold is going "sky high," nor am I convinced that inflation is going to "run rampant." But I'll say what I think, with no bows or curtsies to anyone, and we'll see how it all comes out.

Bermuda is one of the most picturesque and beautiful spots in the Western World, and its beaches are second to none (and I say this as a man who lives within throwing distance of some of the world's best beaches). The price for the conference is $350 per single, $550 per couple ($300 and $500 if you sign before April 30). The price includes all lunches, two cocktail parties, but not hotel rooms. I am told that all this is tax deductible (hotel and meal costs are 85% to 90% deductible). This conference is going to be limited to 200-300, and I hear it is selling out fast. So if you are interested I would suggest sending your check as soon as possible to NCMR, 1524 Hillary Street, New Orleans, LA 70118. You will then receive full info on what is needed, etc. **NEXT MAILING: April 22nd**